



ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

November 9, 2004

Michigan Department of Treasury
Local Audit and Finance Division
P. O. Box 30728
Lansing, MI 48909-8228

RE: City of Iron Mountain, Michigan

Following are the listed items below relative to the City of Iron Mountain:

1. Form 496, Auditing Procedures Report
2. Management Letter (Comments and Recommendations)
2. Fiscal, 2004 Audit Report

Sincerely,

ANDERSON, TACKMAN & COMPANY, P.L.C.

David J. Johnson, CPA
Principal

Enclosures

cc: Carol Bartolameolli
Chief Financial Officer
City of Iron Mountain

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Iron Mountain	County Dickinson
Audit Date 6/30/04	Opinion Date 9/23/04	Date Accountant Report Submitted to State: 11/9/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address 201 E. Hughitt Street - P. O. Box 828		City Iron Mountain	State MI
Accountant Signature 		ZIP 49801	Date 11/9/2004



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September 23, 2004

Members of the City Council
City of Iron Mountain
Iron Mountain, MI

Dear Council Members:

We recently completed our audit of the City of Iron Mountain for the year ended June 30, 2004. Based upon our audit procedures and observations we make the following comment comments and recommendations:

RECEIPTING PROCESS

Optimum internal control over the initial recording of cash received and bank deposits includes the ability to readily differentiate the receipt of currency from checks and the ability to readily track individual receipts to bank deposit tickets.

The official receipts utilized do not accommodate differentiating the receipts of currency from checks. Also, amounts entered on deposit tickets are often aggregated making it difficult to track individual amounts.

RECOMMENDATION

Review procedures over the receipting process to assure that the receipt of currency as opposed to checks is clearly indicated. This may require a change be made to the layout of the official receipts. Also, review procedures to make sure that individual amounts received can be readily traced from official receipts to bank deposit tickets.

PAYROLL

The computation of gross pay for a good portion of the City's employees is a very cumbersome task. Simply put, there are too many variables that come into play. The variables are resultant of historical patterns, negotiations and interpretations. The fact is, however, that in our opinion the process has become so cumbersome that it borders on a breakdown of internal control.

Optimum "internal control" would have all aspects of payroll stream lined, documented and user friendly so that any room for error would be minimized. Furthermore, policy would require that for one or more payrolls each year the preparation of payroll be reassigned to another employee. This would be easier to do if the payroll process was made as mechanical as possible.

RECOMMENDATION

The City Manager, C.F.O., Assistant C.F.O. and all department heads should review all payroll related procedures, variables and computations. Complicating matters should be isolated and a means of mitigating those complications should be agreed upon. In the end, the computation of gross pay, and the variables that come into play, should be clearly documented and communicated so that the payroll processing becomes a simple mechanical process. Finally, in the end, the payroll should be able to be easily tabulated by a backup employee to the Assistant C.F.O. Also, the City might consider adopting a bi-weekly payroll instead of weekly.

MANAGEMENT ANTI-FRAUD POLICIES AND PROCEDURES

The City Manager was previously provided our Audit Client Memorandum regarding the new audit standards applicable to policies and procedures to mitigate the exposure to fraud. A copy of that memorandum is attached. We encourage the City to take steps to adopt minimum policies and procedures consistent with the information provided to the City Manager.

Once again, the cooperation we received from City personnel involved in the audit was excellent. I thank you for the opportunity to provide audit services and should you have any questions please do not hesitate to contact us.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC



L. Robert Schaut, CPA
Senior Principal

CITY OF IRON MOUNTAIN

REPORT ON FINANCIAL STATEMENTS

(with additional information)

For the Year Ended June 30, 2004

CITY OF IRON MOUNTAIN

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INDEPENDENT AUDITORS' REPORT

Members of the City Council
City of Iron Mountain
Iron Mountain, Michigan

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Iron Mountain, Michigan as of and for the year ended June 30, 2004 as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Audit Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Iron Mountain, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "*Government Auditing Standards*", we have also issued our report dated September 23, 2004 on our consideration of the City of Iron Mountain, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with "*Government Auditing Standards*" and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the other required supplementary information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Iron Mountain, Michigan, basic financial statements. The introductory section, combining and individual nonmajor fund financial are presented for the purpose of additional analysis and is not a required part of the basic financial statements of the City of Iron Mountain, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Iron Mountain, Michigan
September 23, 2004

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the City of Iron Mountain's financial performance provides an overview of the City's financial activities for the year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased \$680,171 or 2.3%, for the year ended June 30, 2004. The net of our governmental activities decreased \$(471,155), or 1.9% while the net assets of our business type activity (Water Utility Fund) increased \$1,151,326, or 24.7%.
- During the year ended June 30, 2004 the City's governmental expenses exceeded revenues by \$471,155. This compares to an excess of revenues over expenses of \$482,553 for the year ended June 30, 2003. The change of \$953,708 was substantially a result of an increase in the contributions to the Water Utility Fund for construction out of the Tax Increment Finance Authority Fund of \$696,239. In addition, during 2003 there was \$352,442 more revenue in the Water Capital Improvement Fund substantially a result of a private contribution to the cost of extending water for the Home Depot project.
- The operating revenues of the City's business type activity (Water Utility Fund) were consistent from fiscal 2003 to 2004 at about \$743,000 and it generated an operating profit of \$5,660 for fiscal 03 and \$495 for fiscal 04. However, contributions-in-aid of construction increased \$679,870 from 2003 to 2004 for a total of \$1,268,509 for fiscal 2004.
- The total cost of all of the City's programs was \$7,387,791 for the year ended June 30, 2003 and \$8,355,451 for the year ended June 30, 2004, for an increase of \$967,660 or 13.1%. The increase was substantially related to public works and capital expenditures.
- The general fund reported an excess for the year ended June 30, 2004 of \$26,874, \$83,181 improved over the budgeted deficit of \$(56,307). The excess of \$26,874 was .06% of general fund revenues of \$4,414,835.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For governmental activities, these statements report how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

Reporting the City as a whole

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the

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City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Government activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation and general administration. Property taxes, franchise fees, and state share revenues and state and federal grants fund most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover all or most of the costs of certain services it provides. The City's Water Department is reported here.

Reporting the City's Most Significant Funds

The fund financial statements provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal requirements for certain taxes, grants, and other money. The City's two kinds of funds – *governmental* and *proprietary* – use different accounting methods.

- *Government funds* – Most of the City's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise fund (a component of proprietary funds) is the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities – such as the City's Equipment Fund.

The City as a Trustee

The City is the trustee, or *fiduciary*, of tax receipts that are collected for other agencies and held for periodic payment to those agencies. The City's fiduciary activities are reported in a separate

Statement of Fiduciary Net Assets. We exclude these funds from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The City as a Whole

The City's combined net assets at June 30, 2004 increased \$680,171 from June 30, 2003 as shown in Table 1.

Table 1
Net Assets

	Governmental Activites		Business-Type Activites		Totals	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 5,366,854	\$ 6,038,856	\$ 680,419	\$ 660,746	\$ 6,047,273	\$ 6,699,602
Capital assets (net)	<u>24,112,938</u>	<u>24,936,677</u>	<u>5,271,648</u>	<u>4,100,817</u>	<u>29,384,586</u>	<u>29,037,494</u>
Total assets	<u>29,479,792</u>	<u>30,975,533</u>	<u>5,952,067</u>	<u>4,761,563</u>	<u>35,431,859</u>	<u>35,737,096</u>
Long-term debt outstanding	(3,897,567)	(4,720,987)	-	-	(3,897,567)	(4,720,987)
Other liabilities	<u>(1,103,388)</u>	<u>(1,304,554)</u>	<u>(146,674)</u>	<u>(56,322)</u>	<u>(1,250,062)</u>	<u>(1,360,876)</u>
Total liabilities	<u>(5,000,955)</u>	<u>(6,025,541)</u>	<u>(146,674)</u>	<u>(56,322)</u>	<u>(5,147,629)</u>	<u>(6,081,863)</u>
Net Assets:						
Invested in capital assets, net of related debt	19,397,197	19,473,895	5,271,648	4,100,817	24,668,845	23,574,712
Restricted for debt service	1,500,913	1,498,322	-	-	1,500,913	1,498,322
Unrestricted	<u>3,580,727</u>	<u>3,977,775</u>	<u>533,745</u>	<u>553,250</u>	<u>4,114,472</u>	<u>4,531,025</u>
Total net assets	<u>\$ 24,478,837</u>	<u>\$ 24,949,992</u>	<u>\$ 5,805,393</u>	<u>\$ 4,654,067</u>	<u>\$ 30,284,230</u>	<u>\$ 29,604,059</u>

Table 2 outlines changes in the City's net assets.

Net assets of the City's governmental activities stood at \$24,478,837. Unrestricted net assets – the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$3,580,727.

Net assets of the business-type activity stood at \$5,805,393. Unrestricted net business assets were \$533,745. In general, the business-type activity unrestricted net assets should be used to finance operations of our Water fund.



Table 2
Changes in Net Assets

	Governmental Activites		Business-Type Activites		Totals	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Program revenues:						
Charges for services	\$ 580,118	\$ 537,798	\$ 742,868	\$ 743,411	\$ 1,322,986	\$ 1,281,209
Operating grants	2,877	21,552	-	-	2,877	21,552
General revenues:						
Property taxes	4,939,028	4,696,290	-	-	4,939,028	4,696,290
State revenue sharing	1,746,685	1,721,070	-	-	1,746,685	1,721,070
Unrestricted grants	37,706	352,275	-	-	37,706	352,275
Unrestricted investment earnings	67,281	197,543	7,050	7,305	74,331	204,848
Miscellaneous	<u>151,340</u>	<u>3,148</u>	<u>-</u>	<u>-</u>	<u>151,340</u>	<u>3,148</u>
Total revenues	<u>7,525,035</u>	<u>7,529,676</u>	<u>749,918</u>	<u>750,716</u>	<u>8,274,953</u>	<u>8,280,392</u>
Program Expenses:						
General government	816,933	837,707	-	-	816,933	837,707
Public safety	2,155,320	2,046,332	-	-	2,155,320	2,046,332
Parks and recreation	95,894	118,564	-	-	95,894	118,564
Cemetery	249,464	285,587	-	-	249,464	285,587
General public works	4,035,119	3,053,882	-	-	4,035,119	3,053,882
Interest on long-term debt	260,348	307,968	-	-	260,348	307,968
Water	<u>-</u>	<u>-</u>	<u>742,373</u>	<u>737,751</u>	<u>742,373</u>	<u>737,751</u>
Total expenses	<u>7,613,078</u>	<u>6,650,040</u>	<u>742,373</u>	<u>737,751</u>	<u>8,355,451</u>	<u>7,387,791</u>
Excess before transfers and contributions in aid of construction	(88,043)	879,636	7,545	12,965	(80,498)	892,601
Contributions in aid of construction	-	-	1,268,509	588,639	1,268,509	588,639
Transfers	<u>(383,112)</u>	<u>(396,082)</u>	<u>(124,728)</u>	<u>(108,903)</u>	<u>(507,840)</u>	<u>(504,985)</u>
Increase in net assets	(471,155)	483,554	1,151,326	492,701	680,171	976,255
Net assets – beginning	<u>24,949,992</u>	<u>24,466,438</u>	<u>4,654,067</u>	<u>4,161,366</u>	<u>29,604,059</u>	<u>28,627,804</u>
Net assets – ending	<u>\$ 24,478,837</u>	<u>\$ 24,949,992</u>	<u>\$ 5,805,393</u>	<u>\$ 4,654,067</u>	<u>\$ 30,284,230</u>	<u>\$ 29,604,059</u>

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Governmental Activities

Table 3 presents the cost of each of the City's five largest activities – Public Safety, Street systems, Parks and Recreation, Public Works, and General Government – as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Public Safety	\$ 2,155,320	\$ 2,046,322	\$ 2,152,912	\$ 2,038,871
Cemetery	249,464	285,587	176,332	214,309
Parks and recreations	95,894	118,564	95,894	118,564
General public works	4,035,119	3,041,972	3,635,983	2,725,410
General government	816,933	837,707	708,614	673,658
Totals	<u>\$ 7,352,730</u>	<u>\$ 6,330,152</u>	<u>\$ 6,769,735</u>	<u>\$ 5,770,812</u>

Business-type Activities

Revenues for the City's business-type activity totaled \$742,868 for fiscal 2004 and \$743,411 for fiscal 2003. The Water Department's customer base has been stable.

THE CITY'S FUNDS

At June 30, 2004 the City's governmental funds reported a combined fund balance of \$4,719,478, a decrease of \$403,858 from \$5,123,334 at June 30, 2003.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City general fund budget two times. The purpose of these revisions is to recognize major changes in revenue or expenses. Major revisions included:

- | | | |
|----|--------------------------------------|--------------|
| 1) | Increase general government revenues | \$ 52,387 |
| 2) | Increase operating transfers - net | \$ (135,950) |

Actual charges to expenditures were \$137,772 less than the final budget and revenues were \$452 less than the final budget. The net variation to budget was a gain of \$114,881.



CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004, the City had \$48,232,676 invested in a variety of capital assets including equipment, buildings, parks, roads, and water systems as follows:

Capital Assets at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Land	\$ 2,794,346	\$ 2,761,571	\$ 43,236	\$ 43,236	\$ 2,837,582	\$ 2,804,807
Land improvements	409,508	398,143	-	-	409,508	398,143
Buildings	4,274,161	4,196,518	-	-	4,274,161	4,196,518
Equipment	1,329,056	1,411,519	177,796	103,292	1,506,852	1,514,811
Vehicles	2,315,121	2,291,147	-	-	2,315,121	2,291,147
Infrastructure	30,135,080	29,886,285	6,754,372	5,555,463	36,889,452	35,441,748
Total cost	41,257,272	40,945,183	6,975,404	5,701,991	48,232,676	46,647,174
Less: accumulated depreciation	(17,144,334)	(16,008,508)	(1,703,756)	(1,601,174)	(18,848,090)	(17,609,682)
NET CAPITAL ASSETS	<u>\$ 24,112,938</u>	<u>\$ 24,936,675</u>	<u>\$ 5,271,648</u>	<u>\$ 4,100,817</u>	<u>\$ 29,384,586</u>	<u>\$ 29,037,492</u>

Debt

At year-end the City had \$4,715,741 in bonds and notes outstanding as depicted in Table 5 below, a reduction of \$747,038 from the outstanding amount of \$5,462,779 at June 30, 2003.

Table 5
Outstanding Debt at Year-End

	Governmental Activities	
	2004	2003
T.I.F.A. Bonds	\$ 4,345,000	\$ 5,035,000
Installment loans	<u>370,741</u>	<u>427,779</u>
Total	<u>\$ 4,715,741</u>	<u>\$ 5,462,779</u>



ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the tax rates and fees for the fiscal year 2004/2005 budget. The current state of the economy has been a major contributing factor in establishing these rates. In the upcoming year, the City anticipates that industrial sector growth will occur especially with Systems Control Company. The City received a \$1 million dollar grant from the State to undertake certain infrastructure improvements that will retain Systems Control Company in the community and allow them to expand their employment base in excess of 50 new jobs.

With interest rates at a historic low level, investments lack the rate of return that the City has grown accustomed to in recent years. Also with the slow growth of the economy have come cutbacks in revenue sharing at the State level. Locally, there is some growth in the area of residential building which provides some increase in property tax revenue. There continues to be a variety of inflationary cost and expense issues. All of these were taken into consideration during the 2004/2005 budget process.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers and customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager's office at Iron Mountain, 501 S Stephenson Avenue, Iron Mountain, MI 49801, (906) 774-8530.

CITY OF IRON MOUNTAIN

STATEMENT OF NET ASSETS

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Current assets:			
Cash and equivalents	\$ 1,118,444	\$ 200,731	\$ 1,319,175
Investments	3,720,109	199,777	3,919,886
Receivables:			
Taxes	28,576	-	28,576
Accounts	291,306	128,319	419,625
Interest & dividends	18,797	181	18,978
Due from other funds	52,234	73	52,307
Inventory	117,439	100,592	218,031
Prepaid expenses	19,949	1,058	21,007
Total current assets	5,366,854	630,731	5,997,585
Noncurrent assets:			
Restricted assets:			
Cash and equivalents	-	49,688	49,688
Property, plant and equipment	41,257,272	6,975,404	48,232,676
Accumulated depreciation	(17,144,334)	(1,703,756)	(18,848,090)
Total noncurrent assets	24,112,938	5,321,336	29,434,274
TOTAL ASSETS	29,479,792	5,952,067	35,431,859
LIABILITIES:			
Current liabilities:			
Accounts payable	120,770	13,347	134,117
Accrued other	-	49,896	49,896
Accrued wages	67,919	7,950	75,869
Accrued interest	38,349	-	38,349
Due to other funds	-	48,291	48,291
Due to other governmental units	12,673	25,326	37,999
Other liabilities	36,890	1,864	38,754
Bonds payable	760,000	-	760,000
Notes payable	58,174	-	58,174
Total current liabilities	1,094,775	146,674	1,241,449

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN

STATEMENT OF NET ASSETS

June 30, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Noncurrent liabilities:			
Compensated absences	8,613	-	8,613
Bonds payable	3,585,000	-	3,585,000
Notes payable	312,567	-	312,567
Total noncurrent liabilities	3,906,180	-	3,906,180
TOTAL LIABILITIES	<u>5,000,955</u>	<u>146,674</u>	<u>5,147,629</u>
NET ASSETS:			
Invested in capital assets, net of related debt	19,397,197	5,271,648	24,668,845
Restricted for:			
Debt service	1,500,913	-	1,500,913
Unrestricted	3,580,727	533,745	4,114,472
TOTAL NET ASSETS	<u>\$ 24,478,837</u>	<u>\$ 5,805,393</u>	<u>\$ 30,284,230</u>

The accompanying notes to the financial statements are an integral part of this statement.



CITY OF IRON MOUNTAIN

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2004

	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-Type Activities
<u>FUNCTIONS/PROGRAMS</u>						
<u>PRIMARY GOVERNMENT:</u>						
Governmental Activities:						
General government	\$ 816,933	\$ 108,319	\$ -	\$ -	\$ (708,614)	\$ -
Public safety	2,155,320	2,408	-	-	(2,152,912)	-
Parks and recreation	95,894	-	-	-	(95,894)	-
Cemetery	249,464	73,132	-	-	(176,332)	-
General public works	4,035,119	396,259	-	2,877	(3,635,983)	-
Interest on long-term debt	260,348	-	-	-	(260,348)	-
Total governmental activities	7,613,078	580,118	-	2,877	(7,030,083)	-
Business-type activities:						
Water utility	742,373	742,868	-	-	-	495
TOTAL PRIMARY GOVERNMENT	\$ 8,355,451	\$ 1,322,986	\$ -	\$ 2,877	\$ (7,030,083)	\$ 495
General revenues:						
Property taxes					\$ 4,939,028	\$ -
State revenue sharing					1,746,685	-
Grants and contributions not restricted to specific programs					37,706	-
Unrestricted investment earnings					67,281	7,050
Contributions in aid of construction					151,340	1,268,509
Other					(383,112)	-
Transfers						(124,728)
Total general revenues and transfers					6,558,928	1,150,831
Changes in net assets					(471,155)	1,151,326
Net assets, beginning of year					24,949,992	4,654,067
Net assets, end of year					\$ 24,478,837	\$ 5,805,393
						\$ 30,284,230

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF IRON MOUNTAIN

BALANCE SHEET GOVERNMENTAL FUNDS

June 30, 2004

	General	T.I.F.A. Debt Service	Tax Increment Financing Authority	Nonmajor Governmental Funds
ASSETS:				
Cash and equivalents	\$ 222,462	\$ 8,394	\$ 179,327	\$ 532,717
Investments	100,000	1,483,238	1,087,889	898,981
Receivables:				
Taxes	21,354	-	6,860	362
Accounts	153,233	-	-	123,522
Interest & dividends	1,438	9,281	6,565	1,512
Due from other funds	89,470	-	1,317	2,678
Inventory	40,107	-	-	-
Prepaid expenses	16,913	-	-	1,922
TOTAL ASSETS	<u>\$ 644,977</u>	<u>\$ 1,500,913</u>	<u>\$ 1,281,958</u>	<u>\$ 1,561,694</u>
LIABILITIES:				
Accounts payable	\$ 77,791	\$ -	\$ 1,436	\$ 35,606
Other accrued expenses	35,464	-	-	780
Accrued wages	60,442	-	-	3,290
Due to other funds	7,405	-	-	35,505
Due to other governmental units	12,673	-	-	-
Other liabilities	(328)	-	-	-
TOTAL LIABILITIES	<u>193,447</u>	<u>-</u>	<u>1,436</u>	<u>75,181</u>
FUND BALANCE AND OTHER CREDITS:				
Contributed capital	-	-	-	100
Fund balances:				
Reserved	161,578	1,500,913	1,280,522	56,266
Unreserved				
Designated	-	-	-	551,943
Undesignated	289,952	-	-	878,204
TOTAL FUND BALANCE AND OTHER CREDITS	<u>451,530</u>	<u>1,500,913</u>	<u>1,280,522</u>	<u>1,486,513</u>
TOTAL LIABILITIES, FUND BALANCE AND OTHER	<u>\$ 644,977</u>	<u>\$ 1,500,913</u>	<u>\$ 1,281,958</u>	<u>\$ 1,561,694</u>



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

The accompanying notes to the financial statements are an integral part of this statement.



Total
Governmental
Funds

\$ 942,900
3,570,108

28,576
276,755
18,796
93,465
40,107
18,835

\$ 4,989,542

\$ 114,833
36,244
63,732
42,910
12,673
(328)

270,064

100

2,999,279

551,943
1,168,156

4,719,478

\$ 4,989,542

CITY OF IRON MOUNTAIN, MICHIGAN

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2004

Total fund balances for governmental funds	\$ 4,719,478
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	22,932,987
---	------------

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	1,589,077
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	\$ (38,349)	
Bonds payable	(4,345,000)	
Notes payable	(370,741)	
Compensated absences	<u>(8,615)</u>	<u>(4,762,705)</u>

Total net assets of governmental activities	\$ <u>24,478,837</u>
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ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS

For the Year Ended June 30, 2004

	General	T.I.F.A. Debt Service	Tax Increment Financing Authority	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
General property taxes	\$ 2,855,967	\$ -	\$ 2,100,092	\$ 35,721	\$ 4,991,780
Licenses and permits	7,303	-	-	-	7,303
State grants	955,307	-	-	820,808	1,776,115
Charges for services	422,038	-	-	-	422,038
Local sources	31,896	-	-	-	31,896
Fines and forfeits	20,927	-	-	-	20,927
Interest and rents	41,084	52,648	30,911	24,863	149,506
Unrealized gain on investments	-	(50,058)	-	(167)	(50,225)
Other	80,313	-	9,418	4,352	94,083
TOTAL REVENUES	4,414,835	2,590	2,140,421	885,577	7,443,423
EXPENDITURES:					
Legislative	30,311	-	-	-	30,311
General government	760,154	-	-	-	760,154
Public safety	2,128,184	-	-	1,070	2,129,254
Public works	780,410	-	1,458,042	994,075	3,232,527
Park and recreation	61,759	-	-	-	61,759
Building and grounds	-	-	-	2,230	2,230
Other	267,666	-	-	-	267,666
Debt service	-	938,063	-	-	938,063
TOTAL EXPENDITURES	4,028,484	938,063	1,458,042	997,375	7,421,964
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	386,351	(935,473)	682,379	(111,798)	21,459
OTHER FINANCING SOURCES (USES):					
Operating transfers in	120,759	938,063	12,500	176,684	1,248,006
Operating transfers out	(480,236)	-	(1,021,898)	(171,189)	(1,673,323)
TOTAL OTHER FINANCING SOURCES (USES)	(359,477)	938,063	(1,009,398)	5,495	(425,317)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	26,874	2,590	(327,019)	(106,303)	(403,858)
FUND BALANCE, JULY 1	424,658	1,498,322	1,607,540	1,592,814	5,123,334
FUND BALANCE, JUNE 30	\$ 451,532	\$ 1,500,912	\$ 1,280,521	\$ 1,486,511	\$ 4,719,476

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



**CITY OF IRON MOUNTAIN, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2004

Net changes in fund balances – total governmental funds \$ (403,858)

The changes in net assets reported for governmental activities
in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense (\$1,298,042) exceeded capital outlays (\$583,017). (715,025)

An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service fund is reported with governmental activities. (105,368)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Principal repayments:

Bond principal	\$ 690,000	
Note principal	<u>57,038</u>	747,038

Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:

Compensated absences	\$ (1,272)	
Accrued interest on bonds	<u>7,330</u>	<u>6,058</u>

Changes in net assets of governmental activities \$ (471,155)

**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

June 30, 2004

	<u>Enterprise Fund Water Utility</u>	<u>Internal Service Fund</u>
ASSETS:		
Current assets:		
Cash and equivalents	\$ 200,731	\$ 175,547
Investments	199,777	150,000
Receivables	128,500	14,550
Due from other funds	73	1,680
Inventory	100,592	77,330
Prepaid expenses	<u>1,058</u>	<u>1,114</u>
Total current assets	<u>630,731</u>	<u>420,221</u>
Noncurrent assets:		
Restricted cash and equivalents	<u>49,688</u>	<u>-</u>
Fixed assets:		
Land	43,236	-
Water system in service	6,550,811	-
Vehicles	-	2,315,121
Equipment	381,357	718,074
Less: accumulated depreciation	<u>(1,703,756)</u>	<u>(1,853,244)</u>
Net fixed assets	<u>5,271,648</u>	<u>1,179,951</u>
Total noncurrent assets	<u>5,321,336</u>	<u>1,179,951</u>
TOTAL ASSETS	<u>5,952,067</u>	<u>1,600,172</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

June 30, 2004

	<u>Enterprise Fund Water Utility</u>	<u>Internal Service Fund</u>
LIABILITIES:		
Current liabilities (payable from current assets):		
Accounts payable	13,347	5,940
Accrued wages	7,950	4,185
Accrued expenses	1,864	970
Due to other funds:		
General Fund	48,291	-
Due to other governmental units	<u>25,326</u>	<u>-</u>
Total current liabilities (payable from current assets)	<u>96,778</u>	<u>11,095</u>
Current liabilities (payable from restricted assets):		
Customer deposits	<u>49,896</u>	<u>-</u>
TOTAL LIABILITIES	<u>146,674</u>	<u>11,095</u>
NET ASSETS:		
Invested in capital assets, net of related debt	5,271,648	1,179,951
Unrestricted	<u>533,745</u>	<u>409,126</u>
TOTAL NET ASSETS	<u>\$ 5,805,393</u>	<u>\$ 1,589,077</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to the financial statements are an integral part of this statement.

CITY OF IRON MOUNTAIN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS

For the Year Ended June 30, 2004

	<u>Enterprise Fund Water Utility</u>	<u>Internal Service Fund</u>
OPERATING REVENUES:		
Charges for services	\$ 725,791	\$ -
Rental income	-	524,456
Other	12,288	-
TOTAL OPERATING REVENUES	<u>738,079</u>	<u>524,456</u>
OPERATING EXPENSES:		
Production	96,248	-
Distribution	214,360	-
Administration	240,937	-
Collection	81,266	-
Depreciation	102,582	169,367
Personnel	-	212,980
Supplies	-	85,397
Other services and charges	-	149,928
Debt service	-	77,871
TOTAL OPERATING EXPENSES	<u>735,393</u>	<u>695,543</u>
OPERATING INCOME (LOSS)	<u>2,686</u>	<u>(171,087)</u>
NON-OPERATING REVENUES (EXPENSES):		
Capital grants and contributions:		
Federal government	273,914	-
Tax Increment Financing Authority	994,611	-
Interest and rents	7,273	4,728
Other	(2,430)	18,787

**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS

For the Year Ended June 30, 2004

	Enterprise Fund Water Utility	Internal Service Fund
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>1,273,368</u>	<u>23,515</u>
Income (loss) before transfers and contributions	<u>1,276,054</u>	<u>(147,572)</u>
OPERATING TRANSFERS:		
Operating transfers in:		
Water Capital Improvement Fund	9,391	106
General Fund	-	56,950
Operating transfers out:		
Water Capital Improvement Fund	(64,000)	-
Health Insurance Fund	<u>(70,119)</u>	<u>(14,852)</u>
TOTAL TRANSFERS	<u>(124,728)</u>	<u>42,204</u>
Change in net assets	1,151,326	(105,368)
NET ASSETS, BEGINNING OF YEAR	<u>4,654,067</u>	<u>1,694,445</u>
NET ASSETS, END OF YEAR	<u>\$ 5,805,393</u>	<u>\$ 1,589,077</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to the financial statements are an integral part of this statement.

CITY OF IRON MOUNTAIN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the Year Ended June 30, 2004

	Enterprise Fund Water Utility	Internal Service Fund
OPERATING ACTIVITIES:		
Receipts from operations	\$ 685,041	\$ 510,316
Payments for operating expenses	(188,909)	(288,398)
Payments for wages and related benefits	(398,264)	(212,980)
Other receipts	12,288	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	110,156	8,938
NON-CAPITAL FINANCING ACTIVITIES:		
Transfers from other funds	9,391	57,056
Transfers to other funds	(134,119)	(14,852)
Other	(2,207)	18,787
NET CASH PROVIDED (USED) BY NON-CAPITAL FINANCING ACTIVITIES	(126,935)	60,991
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Contributed capital	1,268,525	-
Acquisition of fixed assets	(1,273,413)	(60,653)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(4,888)	(60,653)
INVESTING ACTIVITIES:		
Investment income	7,050	4,728
Proceeds from investment sales	150,223	25,000
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	157,273	29,728
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	135,606	39,004
CASH AND EQUIVALENTS, BEGINNING OF YEAR	114,813	136,543
CASH AND EQUIVALENTS, END OF YEAR	\$ 250,419	\$ 175,547

**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS

For the Year Ended June 30, 2004

	Enterprise Fund Water Utility	Internal Service Fund
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 2,686	\$ (171,087)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	102,582	169,367
Changes in assets and liabilities:		
Decrease (Increase) in receivables	(40,750)	(14,140)
Decrease (Increase) in due from other funds	273	18,278
Decrease (Increase) in inventory	7,245	21,059
Decrease (Increase) in prepaids	(1,058)	(1,114)
Increase (Decrease) in accounts payable	(3,725)	(15,388)
Increase (Decrease) in accrued payroll	2,867	1,396
Increase (Decrease) in due to other funds	16,361	-
Increase (Decrease) in other liabilities/deposits	23,675	567
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 110,156</u>	<u>\$ 8,938</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to the financial statements are an integral part of this statement.

CITY OF IRON MOUNTAIN

STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS

June 30, 2004

	Expendable Trust Fund	Non-Expendable Trust Fund	Pension Trust Fund	Current Tax Collection Fund
	Health Insurance	Cemetery Perpetual Care	Police and Fire Pension	
ASSETS:				
Cash and equivalents	\$ 123,734	\$ 18,931	\$ 1,493	\$ -
Receivables:				
Interest and dividends	11,815	2,826	-	-
Investments, at fair value	1,203,673	424,155	6,760,500	-
TOTAL ASSETS	1,339,222	445,912	6,761,993	-
LIABILITIES:				
Accounts payable	3,927	-	-	-
Due to other funds	-	4,017	-	-
TOTAL LIABILITIES	3,927	4,017	-	-
NET ASSETS:				
Held in trust for pension benefits and other purposes	<u>\$ 1,335,295</u>	<u>\$ 441,895</u>	<u>\$ 6,761,993</u>	<u>\$ -</u>

The accompanying notes to the financial statements are an integral part of this statement.

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FIDUCIARY FUNDS

For the Year Ended June 30, 2004

	Expendable Trust Fund	Non-Expendable Trust Fund	Pension Trust Fund
	Health Insurance	Cemetery Perpetual Care	Police and Fire Pension
ADDITIONS:			
Contributions:			
Employer	\$ 266,026	\$ -	\$ 292,674
Plan members	5,410	-	67,042
Other	3,125	-	-
Total contributions	274,561	-	359,716
Investment earnings:			
Net increase (decrease) in fair value of assets	(14,093)	(12,183)	262,533
Interest	49,681	18,671	124,846
Dividends	-	-	68,104
Loss on sale of securities (net of gains)	-	-	201,798
Total investment earnings	35,588	6,488	657,281
Other	-	10,647	377
Transfer in	259,551	-	-
TOTAL ADDITIONS	569,700	17,135	1,017,374
DEDUCTIONS:			
Benefits	-	-	648,011
Retirees health insurance	607,995	-	-
Administrative expenses	-	-	105,005
Transfer out	-	17,736	-
TOTAL DEDUCTIONS	607,995	17,736	753,016
Change in net assets	(38,295)	(601)	264,358
NET ASSETS, BEGINNING OF YEAR	1,373,590	442,496	6,497,635
NET ASSETS, END OF YEAR	\$ 1,335,295	\$ 441,895	\$ 6,761,993

The accompanying notes to the financial statements are an integral part of this statement.

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The City of Iron Mountain, Michigan was incorporated in 1889 under the provisions of the State of Michigan. Pursuant to a Home Rule Charter adopted by public vote on October 22, 1985, the City operates under a Council-Manager form of government and provides the following services to its residents: public safety (police and fire), highway and streets, sanitation, culture-recreation, public improvements, planning and zoning, certain public utilities and general administrative services.

The City, for financial reporting purposes, includes all of the funds and account groups relevant to its operations. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate distinct units of government apart from the City of Iron Mountain.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board and scope of public service.

Based on the foregoing criteria, the financial statements of the City's Downtown Development Authority (D.D.A.) And Tax Increment Financing Authority (T.I.F.A.) are included in the accompanying financial statements.

Similarly, it has been determined that the financial statements of the following organizations should not and accordingly, are not included in the accompanying financial statements: Iron Mountain Housing Commission, Joint Sewage Authority, Central Landfill Authority, the Economic Development Authority and the Iron Mountain City School District.

The accounting policies of the City of Iron Mountain conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

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CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following as major governmental funds in accordance with the above criteria:

The General Fund which is described below.

T.I.F.A. Debt Service Fund which is described below.

Tax Increment Financing Authority Fund which is described below.

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

The City reports the following as major enterprise funds in accordance with the above criteria:

The Water Utility Fund which is described below.

The funds of the City are described below:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds - Capital Project Funds are used to account for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - Internal Service Funds are used to finance, administer, and account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit on a cost reimbursement basis.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments and other funds. These include expendable and nonexpendable trust, pension trust, and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resource measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accountings, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

As allowed by GASB Statement No. 20, the City's business-type activities and enterprise funds follow all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

- a. Cash and Equivalents – The City's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Investments – Investments are stated at the fair-market value of the underlying securities.
- c. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.
- d. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

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CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE (Continued)

- e. Inventory – Inventories of the City's General, Water Utility and Motor Vehicle and Equipment Replacement Funds consist of supplies of repair and replacement parts maintained for internal consumption. Quantities are determined by a physical count and/or measurement which is then priced using current costs.
- f. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide of fund financial statements.

Government-Wide Statements:

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and improvements	10-40 years
Machinery and equipment	5-20 years
Infrastructure	20-80 years

Fund Financial Statements:

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

The City has adopted a capitalization policy for fixed assets of \$1,000 per item.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE (Continued)

- g. Restricted Assets - These assets are comprised of cash, certificates of deposit and other investments which are equal to the balance of utility customer service deposits. Specifically the accounts and their balances are as follows:

Cash in checking - an amount equal to utility service customer deposits.

\$ 49,688

- h. Long-Term Debt - The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- i. Compensated Absences - It is the City's policy to permit employees to accumulate a limited amount of earned but unused sick leave, which will be paid to employees upon separation from the City. In governmental funds, the cost of sick leave is recognized when payments are made to employees. In proprietary funds, the cost of vested sick leave is recognized as an expense as earned by the employees.

- j. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.

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CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE (Continued)

3. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.

REVENUES AND EXPENDITURES/EXPENSES

Revenues:

Government-Wide Statements:

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues includes all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

Fund Statements:

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency.

Expenses/Expenditures:

Government-Wide Statements:

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUES AND EXPENDITURES/EXPENSES (Continued)

Fund Statements:

In the governmental fund financial statements expenditures are classified by character; current, debt service and capital outlay.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

Operating Revenues and Expenses:

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Other Financing Sources (Uses):

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances that to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity:

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting:

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Prior to the first Monday in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The City Charter requires that the budget be submitted in summary form. In addition, detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the functional level.
- (2) Public hearings are conducted to obtain taxpayer comment.
- (3) Prior to May 31, the budget is legally enacted through passage of a resolution.
- (4) The City Manager is required by the City Charter to present a quarterly report to the City Council explaining any variance from the approved budget.
- (5) Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, Enterprise, Internal Service and Expendable Trust Funds.
- (6) Budgets for those funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). (See Basis of Accounting above).
- (7) The City Charter requires the adoption of a summary budget for proprietary funds.
- (8) Appropriations lapse at the end of each fiscal year.
- (9) The City Council may authorize supplemental appropriations during the year.

The budget for the year ended June 30, 2004 was formally adopted by action of the City Council on May 19, 2003 and was amended on February 16, 2004 and June 21, 2004.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes:

Property taxes attach as an enforceable lien on property as of January 1, and are levied, due and payable as of July 1. All unpaid taxes become delinquent on August 10 of the same year. Property tax revenues are recognized when they become available. Available includes those taxes expected to be collected within sixty days after year end.

RESERVATIONS AND DESIGNATIONS OF FUND BALANCES AND RETAINED EARNINGS

Reservations are used to indicate that a portion of fund balance/retained earnings is not appropriate for expenditure or is legally segregated for a specific future use.

Designations indicate tentative plans or intent for resource utilization in a future period and are thus subject to change and may never be legally authorized or result in expenditure.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE B – CASH

Cash includes cash on hand, checking accounts, demand savings, money markets, pooled accounts, and short-term certificates of deposit. For purposes of the statements of cash flows of the propriety fund types and similar trust funds, all short-term debt securities purchased with a maturity of three months or less are considered to be cash equivalents.

The carrying amount of cash was \$1,513,023 and the bank balance totaled \$1,568,207. F.D.I.C. or equivalent coverage at June 30, 2004 was \$100,000. A Repurchase Agreement provided security for the City's Sweep Account (carrying value of \$1,437,341). The Repurchase Agreement had a maximum amount of \$1,800,000 and was secured by government or government agency bonds having a market value of approximately \$1,859,297 at June 30, 2004.

The amount of total bank balance classified in three categories of credit risk:

1. Insured or collateralized with securities held by the City of by its agent in the City's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
3. Uncollateralized which includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name.

The City's cash and equivalents was categorized as follows:

	Category			Total
	1	2	3	
Petty Cash	\$ 1,650	\$ -	\$ -	\$ 1,650
Repurchase agreement	1,437,341	-	-	1,437,341
Checking and Savings Accounts	74,032	-	-	74,032
TOTALS	<u>\$1,513,023</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,513,023</u>

ANDERSON, TACKMAN
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CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE B – CASH (Continued)

Statutory authority:

Michigan law (Act 196 PA 1997) authorizes the District to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers' acceptance of United States Banks.
- f. Obligations of this State or any of its political subdivisions at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-4 to 80a-64, with the authority to purchase investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchased through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE B – CASH (Continued)

- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Michigan law (Section 3, Act 40, PA 1932, as amended) prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

NOTE C - INVESTMENTS

Investments consisted of bank certificates of deposit, U.S. Treasury securities, Repurchase Agreements, common stocks, and other investments, and were in accordance with State of Michigan statutes. Those statutes do not mandate that accounts be partially or fully insured or collateralized.

Investments are stated at fair-market-value.

There are three categories of credit risk that apply to the government's cash and investments:

1. Insured or registered or for which the securities are held by the government or the government's agent in the City's name.
2. Uninsured and unregistered for which the securities are held by the counterparty's trust department or the government's agent in the City's name.
3. Uninsured and unregistered for which securities are held by the counterparty, or by its trust department. This category also includes the portion of any repurchase agreements that exceeds the fair value of underlying securities.

The City's investments were categorized as follows:

	Category			Total
	1	2	3	
Bank Certificates of Deposit	\$2,197,440	\$ -	\$ 11,890	\$ 2,209,330
U.S. Treasury and federal agencies	-	-	1,463,383	1,463,383
Repurchase agreements	1,873,773	-	1,227	1,875,000
Common stocks and mutual funds	-	-	6,760,500	6,760,500
TOTALS	\$4,071,213	\$ -	\$ 8,237,000	\$12,308,213

At June 30, 2004, the market value of the investments underlying the repurchase agreements amounted to \$1,873,773.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE D - PENSION PLANS

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM

On June 3, 1957, the City adopted the state administered Municipal Employees' Retirement System pension plan for all eligible full time employees. Benefit provisions are calculated pursuant to Benefit Plan B-4 with an F50 waiver which allows for a full pension to be paid retirees who have attained the age of 50 and have 25 or more years of credited service.

Total pension expense amounted to \$199,038 for the year ended June 30, 2004. Pursuant to the plans actuarial evaluation dated December 31, 2003, the City's contribution for the fiscal year beginning July 1, 2004, has been determined to be \$202,284 (estimated). The City's contribution for the year beginning July 1, 2005 has been determined to be \$218,196 (estimated).

The following information has been prepared to provide the information necessary to comply with GASB Statements Number 25 and 27.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 And GASB 27 Information

The following information has been prepared to provide the information necessary to comply with GASB Statements Number 25 and 27. Statement 25 is effective for fiscal years beginning after June 15, 1996 and Statement 27 is effective for fiscal years beginning after June 15, 1998.

All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2003 actuarial valuation. The entry age normal actuarial method was used to determine the disclosure entries.

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CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE D - PENSION PLANS (Continued)

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (Continued)

GASB 25 Information (as of 12/31/2003)

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits \$5,363,492

Terminated employees (vested former members) not yet receiving benefits 115,411

Non-vested terminated employees (pending refunds of accumulated member contributions) -

Current employees-
Accumulated employee contributions including allocated investment income 813,893

Employer financed 2,978,444

Total Actuarial Accrued Liability \$9,271,240

Net Assets Available for Benefits at Actuarial Value 6,446,615

(Market Value is \$5,886,454)

Unfunded (Overfunded) Actuarial Accrued Liability \$2,824,625

GASB 27 INFORMATION (as of 12/31/2003)

Fiscal Year Beginning July 1, 2005

Annual Required Contribution (ARC) \$ 218,196*

Amortization Factor Used
Underfunded Liabilities (30 years) 0.053632

*Based on valuation payroll, but the actual required contribution will be based on current monthly payroll (during the fiscal year beginning July 1, 2005) times the computed employer contribution rates ranging from 14.91% to 37.53%.

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CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE D - PENSION PLANS (Continued)

MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (Continued)

POLICE AND FIREMENS' PENSION PLAN

In September, 1938 the City voters approved establishing a Police and Firemen's Retirement system pursuant to Act 345 of the Public Acts of 1937, as amended. The retirement system covers all full time employees of the City's public safety department. Benefits are payable to retirees age 60 or older, regardless of their years of service or age 50 with 25 or more years of service.

The City's contribution to the system amounted to \$292,674 for the year ended June 30, 2004, and has been determined to be \$353,966 for the fiscal year beginning July 1, 2004.

GASB STATEMENTS 25 AND 27
REQUIRED ACTUARIAL INFORMATION
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	(a) Funding Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
6-30-95 @	\$5,790,812	\$6,397,523	\$ 606,711	91%	\$ 973,954	62%
6-30-96	6,165,573	6,626,978	461,405	93	1,023,090	45
6-30-97	6,625,128	6,968,920	343,792	95	1,037,448	33
6-30-98	7,168,500	7,594,282	425,782	94	1,083,012	39
6-30-99	7,733,709	8,084,275	350,566	96	1,149,669	30
6-30-00	8,081,803	8,760,569	678,766	92	1,135,991	60
6-30-01	8,191,524	9,249,258	1,057,734	89	1,229,193	86
6-30-02	8,052,027	9,634,961	1,582,934	84	1,259,241	126
6-30-03	7,814,505	10,328,310	2,513,805	76	1,317,719	191

@After changes in actuarial assumptions and/or methods.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE D - PENSION PLANS (Continued)

GASB STATEMENTS 25 AND 27 REQUIRED ACTUARIAL INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution	Percent Contributed
1995	\$ 82,909@	100%
1996	86,227@	100
1997	110,926@	100
1998	115,905@	100
1999	120,981@	100
2000	126,294@	100
2001	124,797@	100
2002	171,190@	100
2003	230,932@	100

@ - In each year the employer allocates in advance a portion of the projected tax revenue to fund the Policemen and Firemen Retirement System. The intention is to match exactly the dollar amount of the annual required contribution. Any difference between the annual required contribution and the actual contribution is a result of this process. These differences have a de minimis impact on the plan's funding progress. The amount shown above as the annual required contribution is the amount actually contributed in each fiscal year.

GASB STATEMENTS 25 AND 27 REQUIRED SUPPLEMENTARY INFORMATION

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest valuation date follows:

Valuation date	June 30, 2003*
Actuarial cost method	Individual entry age
Amortization method for unfunded actuarial accrued liabilities	Level percent closed
Remaining amortization period	For benefit increases - 20 years For service credit purchases - 25 years For assumption changes - 22 years
Amortization method for past experience gains and losses	Level percent open
Remaining amortization period	30 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.70% - 8.50%
including inflation at	4.50%
Cost-of-living adjustments	none



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE D - PENSION PLANS (Continued)

POLICE AND FIREMENS' PENSION PLAN (Continued)

Membership of the plan consisted of the following at June 30, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	27
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	<u>28</u>
 TOTAL	 <u>56</u>

NOTE E - INTERFUND BALANCES AND TRANSFERS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources. Such transactions are generally reflected as transfers in the various funds' financial statements.

In the fund financial statements individual interfund receivable and payable balances at June 30, 2004 arising from these transactions are as follows:

<u>Interfund Receivables</u>		<u>Interfund Payables</u>	
General Fund:		General Fund:	
Major Street	\$ 8,108	Major Street	\$ 1,440
Local Street	4,970	Local Street	1,214
Cemetery Trust	4,017	Water Utility	1,878
Water Utility	50,168	T.I.F.A.	1,275
Capital Improvement	22,207	Downtown Development Authority	24
T.I.F.A.:		Motor Vehicle	1,574
General	1,275	Major Street:	
Major Street	42	General	6,667
Downtown Development		T.I.F.A.	43
Authority:		Local Street:	
General	24	General	3,755
Water Utility:		Capital Improvement:	
Water Capital		General	22,313
Improvement	73	Water Capital Improvement:	
Major Vehicle:		Water Utility	73
General	1,574	Water Utility:	
Capital Improvement	<u>106</u>	General	48,291
Totals	\$ <u>92,564</u>	Cemetery Trust:	
		General	<u>4,017</u>
		Totals	\$ <u>92,564</u>



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE E – INTERFUND BALANCES AND TRANSFERS (Continued)

In the statement of net assets, interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Water Utility	\$ 73	Water Utility	<u>\$48,291</u>
General	48,217		
Cemetery	<u>4,017</u>		
Total	<u>\$52,307</u>		

Interfund transfers for the year ended June 30, 2004 were as follows:

<u>Transfers In:</u>		<u>Transfers Out:</u>	
General Fund:		General Fund:	
T.I.F.A.	\$ 78,650	Health Insurance	\$ 423,286
Capital Improvement	24,373	Motor Vehicle	56,950
Cemetery Trust	17,736		
Major Street:		Major Street:	
T.I.F.A.	4,389	Local Street	107,500
		Health Insurance	9,074
Local Street:		Local Street:	
Major Street	107,500	Health Insurance	8,246
T.I.F.A.	796		
Debt Service:		Capital Improvement:	
T.I.F.A.	938,063	Motor Vehicle	106
		General	24,373
T.I.F.A.:		T.I.F.A.:	
D.D.A.	12,500	General	78,650
		Major Street	4,389
Water Capital		Local Street	796
Improvement:		Debt Service	938,063
Water Utility	64,000	Water Capital	
		Improvement:	
Water Utility:		Water Utility	9,391
Water Capital		D.D.A.:	
Improvement	9,391	T.I.F.A.	12,500
		Water Utility:	
		Water Capital	
		Improvement	64,000
		Health Insurance	70,119

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CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE E – INTERFUND BALANCES AND TRANSFERS (Continued)

<u>Transfers In:</u>		<u>Transfers Out:</u>	
Motor Vehicle:		Motor Vehicle:	
General fund	56,950	Health Insurance	14,852
Capital Improvement	106		
Health Insurance:		Cemetery Trust:	
General	423,286	General Fund	17,736
Motor Vehicle	14,852		
Water Utility	70,119		
Local Streets	8,246		
Major Streets	9,074		
Totals	<u>\$1,840,031</u>		<u>\$1,840,031</u>

NOTE F - FIXED ASSETS

GOVERNMENTAL ACTIVITIES

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Fixed asset activity for the year ended June 30, 2004 was as follows:

	<u>COST</u>			
	July 1, 2003	Additions	Deletions	June 30, 2004
Land	\$ 2,761,571	\$ 32,775	\$ -	\$ 2,794,346
Land improvements	398,143	11,365	-	409,508
Buildings	4,196,518	77,643	-	4,274,161
Equipment	1,184,709	20,346	100,275	1,104,780
Vehicles	2,291,147	49,774	25,800	2,315,121
Sewer system	7,242,184	356,325	-	7,598,509
Storm sewers	4,976,886	-	-	4,976,886
Office equipment	156,142	-	12,534	143,608
Playground equipment	70,668	10,000	-	80,668
Street system	<u>17,667,215</u>	<u>85,442</u>	<u>192,972</u>	<u>17,559,685</u>
 TOTAL COST	 <u>\$40,945,183</u>	 <u>\$ 643,670</u>	 <u>\$ 331,581</u>	 <u>\$41,257,272</u>



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE F - FIXED ASSETS (Continued)

Accumulated Depreciation

	July 1, 2003	Additions	Deletions	June 30, 2004
Storm sewers	\$ 855,781	\$ 62,211	\$ -	\$ 917,992
Land improvements	173,242	17,933	-	191,175
Buildings	1,182,513	109,773	-	1,292,286
Equipment	795,784	57,095	100,275	752,604
Vehicles	1,297,258	133,994	25,800	1,405,452
Sewer system	2,192,081	189,752	-	2,381,833
Office equipment	116,532	13,611	12,534	117,609
Playground equipment	34,856	7,014	-	41,870
Roads	9,360,461	876,024	192,972	10,043,513
Total Accumulated Depreciation	16,008,508	\$1,467,407	\$331,581	17,144,334
Net Assets	\$24,936,675			\$24,112,938

Depreciation expense was charged to governmental activities as follows:

Governmental activities:

General government	\$ 107,295
Public safety	35,535
Parks and recreation	44,079
Cemetery	3,015
General public works	1,277,483

Total governmental activities depreciation expense \$ 1,467,407

BUSINESS TYPE ACTIVITIES

	July 1, 200	Cost Additions	Deletions	June 30, 2004
Land	\$ 43,236	\$ -	\$ -	\$ 43,236
Equipment	103,292	74,504	-	177,796
Water system	5,555,463	1,198,909	-	6,754,372
	\$5,701,991	\$1,273,413	\$ -	\$6,975,404

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CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE F - FIXED ASSETS (Continued)

	<u>Accumulated Depreciation</u>			
	<u>July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2004</u>
Equipment	\$ 75,417	\$ 7,238	\$ -	\$ 82,655
Water system	<u>1,525,757</u>	<u>95,344</u>	<u>-</u>	<u>1,621,101</u>
	<u>1,601,174</u>	<u>\$ 102,582</u>	<u>\$ -</u>	<u>1,703,756</u>
Net assets	<u>\$ 4,100,817</u>			<u>\$5,271,648</u>

Depreciation charged to expense was \$102,582 for the year ended June 30, 2004.

NOTE G - LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2004:

<u>Type of Debt</u>	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
1991 T.I.F.A. Bonds	\$1,005,000	\$ -	\$ 310,000	\$ 695,000	\$ 335,000
1993 T.I.F.A. Bonds	4,030,000	-	380,000	3,650,000	425,000
1996 Installment Note	74,544	-	24,078	50,466	25,100
1995 Installment Note	39,026	-	16,440	22,586	16,430
2002 Installment Note	314,209	-	16,520	297,689	16,644
Vested compensated absences	<u>7,341</u>	<u>1,272</u>	<u>-</u>	<u>8,613</u>	<u>-</u>
Total governmental long-term debt	<u>\$5,470,120</u>	<u>\$ 1,272</u>	<u>\$ 747,038</u>	<u>\$ 4,724,354</u>	<u>\$ 818,174</u>

The total amount of interest charged to expense was \$268,412.

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CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE G - LONG-TERM DEBT (Continued)

Debt service requirements on long-term debt at June 30, 2004, are as follows:

For the Year Ending June 30,	Governmental Activities			
	Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest
2005	58,174	18,640	760,000	206,338
2006	49,030	15,475	835,000	170,850
2007	18,418	13,326	510,000	131,800
2008	19,342	12,402	540,000	106,300
2009	20,381	11,363	560,000	79,300
Subtotal	165,345	71,206	3,205,000	694,588
2010-2014:				
2010	21,439	10,305	565,000	51,300
2011	22,553	9,191	575,000	25,876
2012	23,705	8,039	-	-
2013	24,957	6,787	-	-
2014	26,253	5,491	-	-
Subtotal	118,907	39,813	1,140,000	77,176
2015-2019:				
2015	27,617	4,127	-	-
2016	29,047	2,697	-	-
2017	29,825	1,182	-	-
Subtotal	86,489	8,006	-	-
Total	<u>\$370,741</u>	<u>\$119,025</u>	<u>\$4,345,000</u>	<u>\$ 771,764</u>

It is estimated that vested compensated absences will mature subsequent to the year ending June 30, 2005.

Governmental Activities:

As of June 30, 2004, the governmental activities long-term debt consisted of the following:

1991 Bonds Payable

1991 Tax Increment Bonds originally totaling \$3,350,000 (denomination \$5,000 each) dated December 1, 1991 mature annually on May 1 through 2006. Interest is paid semi-annually on November 1, and May 1 of each year at the stated coupon rate as reflected above.

The bonds were issued by the Tax Increment Finance Authority of the City of Iron Mountain for the purpose of financing the following capital projects:

1. The redevelopment of an existing building into new City Hall administrative offices.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE G - LONG-TERM DEBT (Continued)

2. The construction of a new Police/Fire Department facility.
3. The construction of a new Department of Public Works facility.

The bonds and interest thereon are payable primarily from the property tax revenues of the Tax Increment Finance Authority. As additional security for the payment of bond principal and interest, the City has pledged its full faith and credit. Hence, these bonds are said to be limited tax general obligation bonds.

Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2000 to 2006, inclusive, are subject to redemption, at the option of the Authority in such order as the Authority shall determine within any maturity by lot, on any interest payment date on or after May 1, 1999 at par and accrued interest to date fixed for redemption.

The 1991 bonds mature as follows:

<u>Fiscal Year</u>	<u>Coupon Rate</u>	<u>November 1</u>	<u>May 1</u>		<u>Total</u>
		<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
04-05	4.250	14,769	335,000	14,769	364,538
05-06	4.250	<u>7,650</u>	<u>360,000</u>	<u>7,650</u>	<u>375,300</u>
TOTALS		<u>\$ 22,419</u>	<u>\$ 695,000</u>	<u>\$ 22,419</u>	<u>\$ 739,838</u>

1993 Bonds Payable

1993 Tax Increment Bonds originally totaling \$5,715,00 (denomination \$5,000 each) dated February 1, 1993 mature annually on May 1 through 2011. Interest is paid semi-annually on November 1, and May 1 of each year at the stated coupon rate as reflected above.

The bonds were issued by the Tax Increment Finance Authority of the City of Iron Mountain for the purpose of financing the following capital projects:

The project included separation of storm sewer from sanitary sewer and placement of approximately 25,000 lineal feet of new trunk line storm sewer, storm sewer leads, manholes, catch basins and related appurtenances within the Tax Increment Finance Authority district (TIFA district) and adjacent tributary areas to correct flooding problems within the TIFA district. Also included was improvement to Mud Lake (East) for detention of storm water and selected water main and other sanitary sewer improvements.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE G - LONG-TERM DEBT (Continued)

The bonds and interest thereon are payable primarily from the property tax revenues of the Tax Increment Finance Authority. As additional security for the payment of bond principal and interest, the City has pledged its full faith and credit. Hence, these bonds are said to be limited tax general obligation bonds'.

Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2002 to 2011, inclusive, are subject to redemption, at the option of the Authority in such order of maturity as determined by the Authority and by lot, on any interest payment date on or after May 1, 2001 at par and accrued interest to date fixed for redemption plus a premium expressed as a percentage of par as follows:

1% of the principal amount of each Bond or portion thereof called for redemption on or after May 1, 2003 but prior to May 1, 2005;

No premium shall be paid on Bonds or portions thereof called for redemption on or after May 1, 2005.

The 1993 bonds mature as follows:

Fiscal Year	Coupon Rate	November 1	May 1		Total
		Interest	Principal	Interest	
04-05	5.000	\$ 88,400	\$ 425,000	\$ 88,400	\$ 601,800
05-06	5.000	77,775	475,000	77,775	630,550
06-07	5.000	65,900	510,000	65,900	641,800
07-08	5.000	53,150	540,000	53,150	646,300
08-09	5.000	39,650	560,000	39,650	639,300
09-10	4.500	25,650	565,000	25,650	616,300
10-11	4.500	12,938	575,000	12,937	600,875
TOTALS		\$ 363,463	\$3,650,000	\$ 363,462	\$4,376,925

CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE G - LONG-TERM DEBT (Continued)

Notes Payable:

5.17% loan payable \$13,739 semi-annually including interest and secured by truck equipment. The loan was as of March 25, 1996 in the original amount of \$211,718 and it matures in the year 2006. The loan balance at June 30, 2004 was \$50,466.

6.25% loan payable \$8,215 semi-annually plus interest and secured by truck equipment. The loan was as of June 1, 1995 in the original amount of \$164,311 and it matures in the year 2005. The loan balance at June 30, 2004 was \$22,586.

5.06% loan payable \$15,872 semi-annually including interest and secured by truck equipment. The loan was in the original amount of \$329,251 and it matures in 2017. The loan balance at June 30, 2004 was \$297,689.

NOTE H - COMPENSATED ABSENCES

Pursuant to the requirements of Financial Accounting Standards Board Statement 43, the City accrues a liability for compensated absences.

For governmental funds the liability for compensated absences is recorded in the general long-term debt account group since it is anticipated that none of the liability will be liquidated with expendable available financial resources. The liability for compensated absences is recorded in proprietary fund types (Enterprise and Internal Service Funds) as accrued liabilities in accordance with FASB Statement 43.

Specifically, the various contracts and agreements covering the City's personnel allow for the vesting and/or accumulation of sick leave as follows:

	<u>Accumulated</u>	<u>Vested</u>
Firemen	\$ 97,732	\$ -
Police	133,141	-
City Hall Office	84,319	-
Other City employees	<u>247,739</u>	<u>8,613</u>
TOTALS	<u>\$ 562,931</u>	<u>\$ 8,613</u>



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE I - TAX INCREMENT FINANCING AUTHORITY

Pursuant to applicable Michigan statutes the Iron Mountain City Council passed a resolution on May 20, 1985 creating a Tax Increment Financing Authority district which covers an area of approximately 1,300 acres along the highway U.S. 2 corridor from the south to the north city limits. Its purpose is to generate revenue (as discussed below) and to expend such amounts within the district for improvements to streets, curbs, sidewalks, and sewers.

The Authority's intended source of funding is property taxes levied within the District but only to the extent that such taxes are generated as a result of an increase in the total state equalized value since the established property evaluation base date of January 1, 1985. Accordingly, the Authority's first revenues received were from the July and December, 1985, tax billings.

NOTE J - WATER AND SEWER AGREEMENTS

The City has a long-term agreement with the Iron Mountain-Kingsford Joint Sewage Authority for sewage treatment. The agreement is established by ordinance (Chapter 3 Article 2) which provides for sewer rates, minimum monthly charges and a collection fee to be retained by the City for billing services provided. These rates can be adjusted periodically through ordinance amendments.

NOTE K - POST EMPLOYMENT HEALTH INSURANCE BENEFITS

In addition to providing pension benefits, the City provides health insurance benefits for its retired employees. Substantially all of its employees may become eligible for those benefits if they reach normal retirement age while working for the City. The cost of retiree's health care insurance is recognized as an expenditure as insurance premiums are paid. For fiscal 2004, the cost was \$270,412 for Police and Fire Retirees and \$337,581 for other retirees. The employees contributions amounted to \$5,408.

NOTE L - RISK MANAGEMENT

The City of Iron Mountain is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Iron Mountain maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

ANDERSON, TACKMAN
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CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE M – CONTINGENCY

The City has established a reserve for the refund of personal property tax collected on pipelines. The potential exposure to the City is estimated at \$89,000 and the case is going to the Michigan Tax Tribunal for resolution.

NOTE N – RESERVED AND DESIGNATED FUND BALANCES AND OTHER EQUITY

The City has reserved and designated fund balances or retained earnings at June 30, 2004 as follows:

General Fund:

- | | |
|--|---------------|
| 1. An amount equal to inventory, a nonappropriable asset. | \$ 40,107 |
| 2. Funds earmarked for a police liaison officer. | 11,117 |
| 3. An amount equal to delinquent property taxes receivable.
These delinquent taxes, if collectible, are not expected to be substantially collected within one year. | 21,354 |
| 4. An estimate of possible liability for personal property tax revenues under appeal. | <u>89,000</u> |

TOTAL	<u>\$161,578</u>
--------------	-------------------------

Police Law Enforcement Fund:

Reserved Fund Balance - \$16,592; an amount equal to the funds total equity which must be used to purchase equipment to be used in law enforcement.

Debt Service Funds:

1991/1993 T.I.F.A. Bonds - Reserved Fund Balance - \$1,500,913; an amount to be used for future servicing of general obligation debt.

Capital Improvement Fund:

Designated Fund Balance - \$252,089; an amount equal to the fund's equity intended for future budgeted capital projects pursuant to a ten year plan.

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CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

(Continued)

NOTE N – RESERVED AND DESIGNATED FUND BALANCES AND OTHER EQUITY (Continued)

Water Capital Improvement Fund:

Designated Fund Balance - \$299,854; an amount equal to the fund's equity intended for future budgeted water system construction projects.

Water Utility Fund:

Designated Retained Earnings - \$1,302,496; an amount designated for future improvements.

Motor Vehicle Fund:

Designated Retained Earnings - \$23,956; for future equipment purchases.

Cemetery Perpetual Care Trust Fund:

Reserved Fund Balance - \$441,895; non-expendable accumulated proceeds of cemetery perpetual care leases sold.

Retirees' Health Insurance Fund:

Reserved Fund Balance - \$1,335,295, an amount which will be used to pay retirees health insurance premiums.

Police and Firemen's Pension Trust Fund:

Reserved Fund Balance - \$6,761,993; legally restricted for payments to retirees or active participants (upon withdrawal).

Additionally, the fund balances of the Tax Increment Financing Authority, \$1,280,522; and the Downtown Development Authority, \$39,674 as presented herein are reflected as being reserved as they represent amounts which have been restricted for use in budgeted capital projects.

NOTE O – COMMITMENTS

At June 30, 2004 the City had committed to construction contracts for water system improvements totaling \$3,822,828.

See footnote P.

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CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE P – SUBSEQUENT EVENT

On August 1, 2004 the City issued \$4,800,000 Limited Tax General Obligation Bonds, series 2004. The bond proceeds are earmarked for water system improvements.

See footnote O.

NOTE Q– PRIOR PERIOD ADJUSTMENTS

General Fixed Assets

The general fixed asset balance at June 30, 2003 was increased a net amount of \$934,934 representing the depreciated cost of storm sewers put in place in 2002. The 2002 amount was omitted from the amount of \$4,024,087 recorded with the adoption of GASB 34 at June 30, 2003.

ANDERSON, TACKMAN
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CERTIFIED PUBLIC ACCOUNTANTS



**REQUIRED
SUPPLEMENTAL**

CITY OF IRON MOUNTAIN

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended June 30, 2004

	Budgeted Amounts		Actual (Budgetary Basis) (Note A)	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
General property taxes	\$ 2,860,035	\$ 2,870,515	\$ 2,855,967	\$ (14,548)
Licenses and permits	12,500	12,500	7,303	(5,197)
Federal grants	2,500	2,500	-	(2,500)
State grants	951,800	953,763	955,307	1,544
Charges for services	411,300	411,300	422,038	10,738
Local sources	33,515	33,515	31,896	(1,619)
Fines and forfeits	15,500	15,500	20,927	5,427
Interest and rents	45,000	45,000	41,084	(3,916)
Other	30,750	70,694	80,313	9,619
TOTAL REVENUES	4,362,900	4,415,287	4,414,835	(452)
EXPENDITURES:				
Legislative	14,910	33,132	30,311	2,821
General government	748,878	786,978	728,479	58,499
Public safety	2,164,694	2,175,507	2,128,184	47,323
Public works	903,675	796,106	780,410	15,696
Park and recreation	74,106	75,506	61,759	13,747
Other	258,979	299,479	299,341	138
TOTAL EXPENDITURES	4,165,242	4,166,708	4,028,484	138,224
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	197,658	248,579	386,351	137,772
OTHER FINANCING SOURCES (USES):				
Operating transfers in	222,650	143,650	120,759	(22,891)
Operating transfers out	(423,286)	(480,236)	(480,236)	-
TOTAL OTHER FINANCING SOURCES (USES)	(200,636)	(336,586)	(359,477)	(22,891)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(2,978)	(88,007)	26,874	114,881
FUND BALANCE, JULY 1	424,658	424,658	424,658	-
FUND BALANCE, JUNE 30	\$ 421,680	\$ 336,651	\$ 451,532	\$ 114,881

The accompanying notes to the financial statements are an integral part of this statement.





**OTHER
SUPPLEMENTAL
INFORMATION**

CITY OF IRON MOUNTAIN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2004

	Major Street	Local Street	Police Law Enforcement	Municipal Building
ASSETS:				
Cash and equivalents	\$ 126,385	\$ 111,069	\$ 16,592	\$ 20,845
Investments	274,148	175,000	-	75,000
Receivables:				
Taxes	-	-	-	-
Accounts	85,030	37,053	-	1,439
Interest & dividends	-	-	-	-
Prepaid expenses	1,196	726	-	-
Due from other funds	1,440	1,214	-	-
TOTAL ASSETS	\$ 488,199	\$ 325,062	\$ 16,592	\$ 97,284
LIABILITIES:				
Accounts payable	\$ 9,042	\$ 6,010	\$ -	\$ -
Other accrued expenses	546	234	-	-
Accrued wages	2,179	1,111	-	-
Due to other funds	8,150	4,969	-	-
TOTAL LIABILITIES	19,917	12,324	-	-
FUND BALANCE AND OTHER CREDITS:				
Contributed capital	-	-	-	100
Fund balances:				
Reserved	-	-	16,592	-
Unreserved				
Designated	-	-	-	-
Undesignated	468,282	312,738	-	97,184
TOTAL FUND BALANCE AND OTHER CREDITS	468,282	312,738	16,592	97,284
TOTAL LIABILITIES, FUND BALANCE AND OTHER	\$ 488,199	\$ 325,062	\$ 16,592	\$ 97,284



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 CERTIFIED PUBLIC ACCOUNTANTS



Capital Improvement	Water Capital Improvement	Downtown Development Authority	Total Nonmajor Governmental Funds
\$ 174,391	\$ 42,046	\$ 41,389	\$ 532,717
100,000	274,833	-	898,981
-	-	362	362
-	-	-	123,522
11	1,501	-	1,512
-	-	-	1,922
-	-	24	2,678
<u>\$ 274,402</u>	<u>\$ 318,380</u>	<u>\$ 41,775</u>	<u>\$ 1,561,694</u>
\$ -	\$ 18,453	\$ 2,101	\$ 35,606
-	-	-	780
-	-	-	3,290
22,313	73	-	35,505
<u>22,313</u>	<u>18,526</u>	<u>2,101</u>	<u>75,181</u>
-	-	-	100
-	-	39,674	56,266
252,089	299,854	-	551,943
-	-	-	878,204
<u>252,089</u>	<u>299,854</u>	<u>39,674</u>	<u>1,486,513</u>
<u>\$ 274,402</u>	<u>\$ 318,380</u>	<u>\$ 41,775</u>	<u>\$ 1,561,694</u>

CITY OF IRON MOUNTAIN**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2004

	Major Street	Local Street	Police Law Enforcement
REVENUES:			
General property taxes	\$ -	\$ -	\$ -
State grants	576,747	241,183	-
Charges for services	-	-	-
Interest and rents	7,519	3,699	82
Other	2,256	1,995	-
TOTAL REVENUES	586,522	246,877	82
EXPENDITURES:			
Public safety	-	-	1,070
Public works	428,156	263,621	-
Park and recreation	-	-	-
Building and grounds	-	-	-
TOTAL EXPENDITURES	428,156	263,621	1,070
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURE	158,366	(16,744)	(988)
OTHER FINANCING SOURCES (USES):			
Operating transfers in	4,389	108,296	-
Operating transfers out	(116,574)	(8,246)	-
TOTAL OTHER FINANCING SOURCES (USES)	(112,185)	100,050	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	46,181	83,306	(988)
FUND BALANCE, JULY 1	422,101	229,431	17,580
FUND BALANCE, JUNE 30	\$ 468,282	\$ 312,737	\$ 16,592

**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



<u>Municipal Building</u>	<u>Capital Improvement</u>	<u>Water Capital Improvement</u>	<u>Downtown Development Authority</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -	\$ 35,721	\$ 35,721
-	2,877	-	-	820,807
-	-	-	-	-
2,981	4,051	6,042	489	24,863
100	-	(167)	-	4,184
<u>3,081</u>	<u>6,928</u>	<u>5,875</u>	<u>36,210</u>	<u>885,575</u>
-	-	-	-	1,070
-	10,031	283,158	9,110	994,076
-	-	-	-	-
2,230	-	-	-	2,230
<u>2,230</u>	<u>10,031</u>	<u>283,158</u>	<u>9,110</u>	<u>997,376</u>
<u>851</u>	<u>(3,103)</u>	<u>(277,283)</u>	<u>27,100</u>	<u>(111,801)</u>
-	-	64,000	-	176,685
-	(24,479)	(9,391)	(12,499)	(171,189)
-	(24,479)	54,609	(12,499)	5,496
851	(27,582)	(222,674)	14,601	(106,305)
<u>96,434</u>	<u>279,670</u>	<u>522,529</u>	<u>25,072</u>	<u>1,592,817</u>
<u>\$ 97,285</u>	<u>\$ 252,088</u>	<u>\$ 299,855</u>	<u>\$ 39,673</u>	<u>\$ 1,486,512</u>

OTHER REPORTS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH "GOVERNMENT AUDITING STANDARDS"**

Members of the City Council
City of Iron Mountain
Iron Mountain, Michigan 49801

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Iron Mountain, State of Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City of Iron Mountain, Michigan's basic financial statements and have issued our report thereon dated September 23, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Iron Mountain, State of Michigan's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under "Government Auditing Standards".

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Iron Mountain, State of Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Iron Mountain, in a separate letter dated September 23, 2004.

This report is intended for the information of management and the Members of the City Council. However, this report is a matter of public record and its distribution is not limited.

Anderson Tackman & Co. P.C.

ANDERSON, TACKMAN & COMPANY, P.L.C.
Certified Public Accountants

Iron Mountain, Michigan
September 23, 2004

